

Construction

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lucrative market for stolen
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Thieves cash in on lucrative market for stolen construction equipment

Unsecured construction sites are gold mines for professional thieves who are more than happy to cash in on the thriving market for stolen heavy equipment. Contractors are so vulnerable that construction theft costs them as much as \$1 billion a year, according to the National Insurance Crime Bureau.

Know the hot list

Thieves often strike job sites on weekends and holidays, realizing that their most opportune moments are when the sites are idle. Open cabs, a lack of security and the fact that a single key can operate many machines are among the weaknesses thieves exploit.

Equipment most in demand includes tractors, backhoes, skid-steer loaders, compressors and generators. Job site raiders will resell the equipment to unsuspecting contractors or break them down into pieces for resale as parts.



Theft has increased so much in recent years that some contractors factor stolen equipment into the cost of doing business. Unfortunately, the costs of replacing stolen equipment, short-term rentals, project overruns and wasted labor can drive profits into the ground.

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You can protect yourself by taking proactive steps to secure your sites, materials and equipment. In doing so, you may be eligible to receive discounted insurance premiums. Check with your carrier for specifics on such a program.

Employ powerful deterrents

If you haven't done so already, consider taking these steps to minimize the potential for theft:

- Put up a fence around job sites and lock the gates. In particularly high-risk areas, add razor wire around the fence top.
- Install security lights that activate in low light.
- Post signs throughout the job site that state you have security on site and will prosecute violators.
- Suspend heavy equipment from cranes at night.
- Hire security guards to patrol sites.
- Rekey equipment so that universal keys don't work.
- Install antitheft devices such as tire locks, alarms and ignition-disabling devices.
- Permanently engrave or weld equipment with the company logo and phone number in several places. Some contractors use bright paint instead, but be aware that paint can be removed.
- Conduct random site visits to ensure nothing unusual is going on.

As an added precaution, ask your local police department to regularly drive by your work sites after hours and on weekends.

Plan for the worst

No matter how carefully you protect your sites and equipment, prepare for the worst by maintaining an equipment inventory that includes the year, make, model, serial number and date of purchase for each piece of machinery. Also, document identifying marks such as company logos and phone numbers, and photograph all pieces of equipment from a number of views. Then store the pictures, along with ownership documents, in a secure place.

Be sure to register your equipment with the National Equipment Register (NER), which was formed in 2001 to combat the growing problem of construction theft. The organization maintains databases of registered and stolen equipment, assists in tracking stolen equipment

through its 24-hour hotline, and works with law enforcement agencies and the insurance industry to identify stolen equipment.

The NER is also involved with a national training program that teaches police officers what to look for when investigating equipment theft. For more information, visit www.nerusa.com.

Don't be vulnerable

While no method is foolproof, contractors who adopt a combination of controls — such as those listed above — in preventing equipment theft are less likely to incur needless losses that affect their bottom lines. Aggressive deterrence is the optimal way to keep equipment from becoming another national statistic.

But if you do become the victim of job site theft, notify law enforcement officials and the NER immediately, and report any losses to your insurance company. ↑

No crystal ball required

Life-cycle costing reveals total building costs, now and in the future

How much will it cost to build and operate Building A vs. Building B? Does it make sense to upgrade the existing facility rather than replace it with a new building? Answering these types of questions doesn't require a crystal ball — all that's needed is an economic analysis known as life-cycle costing (LCC).

What is it?

Originally developed by the U.S. Department of Defense, LCC is a risk-evaluation method that identifies, qualifies and analyzes all costs associated with the construction and operation of a building over its expected life. These can include, but aren't limited to, the initial capital outlay, maintenance and operating expenses, financing, and expected useful life of equipment.

For example, an LCC analysis might be used to determine whether it's more economical to construct a school using conventional framing methods or prefabricated building units, or to renovate an existing building that may be structurally sound but that cannot sufficiently accommodate teachers and students.

Though LCC is primarily intended for owners, engineers and other project decision-makers, your expertise



in the areas of timing of work zones, materials costs and labor costs may be required.

LCC leads to improved decision-making at all levels and paves the way for higher-quality design and

Life and other plans

There are several areas in which a life-cycle costing (LCC) analysis can inadvertently go awry, which is why those who use the tool should revisit and adjust it occasionally.

One potential problem is in the unexpected and unpredictable: Natural disasters may shrink supplies, for example, and force prices up, or breakthrough technology may make some equipment obsolete overnight.

Reliably predicting inflation or interest rates over 30 or 40 years or accurately determining how long building fittings and fixtures will last may prove to be difficult.

Understanding the limitations of LCC analysis is critical, and developing a data bank on the various components of total life-cycle costs can improve its value. Approached properly, LCC analysis is a useful tool for projects with long life spans — one that can add significant value.



construction projects at lower costs. There is one caveat, however: The option with the lowest life-cycle cost may not be the best solution when political and environmental concerns are factored in. So, while LCC analysis provides critical information to the overall decision-making process, other influencing factors also should be considered.

What's involved in the analysis?

Generally, an LCC analysis evaluates three variables: 1) the costs of ownership, 2) the period of time over which these costs are incurred and 3) the discount rate that is applied to future costs to equate them with

present-day costs. The basic steps involved in an LCC analysis include:

Step 1: Calculating initial and future expenses.

Initial expenses are incurred before people move into a building, while future expenses are incurred after move-in. Future expenses, such as those for repair or replacement of roofs and HVAC systems and ongoing maintenance, can be difficult to predict months or years before they are incurred. Still, considering all available information and making reasonable assumptions can lead to a credible LCC analysis.

Step 2: Determining when costs will be incurred.

LCC is designed to examine the future economic consequences of decisions being made now. In doing that, an LCC analysis looks at two time periods: planning and construction, which ends when the building is operational, and the service period, which begins when the building becomes operational.

A typical 20- or 30-year LCC analysis considers the expected life of major building components and systems, recognizing that individual user preferences and habits can add or subtract longevity.

Step 3: Discounting for dollars. Discounting is a method of including the time value of an investment or determining an interest rate that would make an investor indifferent to whether he or she was paid now or received a greater payment sometime in the future.

If an LCC analysis uses a real discount rate, which excludes the rate of inflation, it must use constant dollars, which also don't consider inflation. If the analysis accounts for inflation, it's based on current dollars and a nominal discount rate.

In either case, the end goal of any LCC analysis is the same: to improve decision-making at every step and establish the true cost of owning and occupying a building.

Are there any limitations?

Collecting the data required to perform a comprehensive LCC analysis can be time-consuming and labor-intensive. Owners, engineers and other decision-makers need to choose someone with ample experience in LCC to do these analyses. That's because, if assumptions about inflation rates, the life of the building and its equipment, and repair and replacement costs are incorrect, the analysis will be full of errors. Those involved in the analyses need to document how assumptions are made and modify the documentation when appropriate. †

Employee or independent contractor?

The distinction can be costly

Do you rely on independent contractors to get your jobs finished on time? If so, are you certain those workers aren't really employees?

The distinction between independent contractors and employees can be a fine one, but it's one on which the IRS places a great deal of importance. Get it wrong for tax purposes, and you could open yourself up to problems that could cripple your business.

Be aware of tax implications

As an employer, you must withhold payroll taxes and report wages paid for each employee, as well as pay unemployment compensation tax and your share of FICA contributions. On the other hand, you're required to issue a 1099 form once a year to independent contractors, and only if you pay them more than \$600 during that year.

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how contractors use them. Thus, to keep the arm of the IRS at a safe distance, establish whether you're hiring an independent contractor or an employee before work begins.

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20 factors determine classification

To a large degree, whether someone is an independent contractor depends on how much control you exercise over that person's work schedule and the way in which he or she does the job. The IRS has established a 20-factor test to help determine whether a worker is an independent contractor. Here's a sampling of some of those factors:

- You don't provide the worker with instructions or training in how to do the work.
- The worker can hire others to get the job done.
- The worker sets his or her own work hours.
- The success of your business doesn't depend on the worker's services.
- You have no permanent relationship with the worker.
- You pay the worker by the job, rather than by the hour.
- The worker may work for more than one company at a time.
- The worker provides his or her own tools and is responsible for his or her own business expenses.
- The worker can perform his or her duties without renting your equipment or facilities.
- The worker can't be fired as long as he or she meets contract specifications.



While these factors can help you determine whether a worker is an employee or an independent contractor, they are not comprehensive. The laws governing independent contractors vs. employees are complex.

Get it in writing

It can be helpful for you to develop a written agreement to be used when hiring an independent contractor. In it, the worker should acknowledge that he or she is an independent contractor. The document also should clearly indicate what the worker's responsibilities include and contain a clause stating that you'll report all payments to the IRS on a 1099 form.

If you can't prove to the IRS that someone is an independent contractor, you may be required to pay all employment taxes that should have been paid during the course of his or her work. You also may be subject to penalties ranging from 12% to 35% of the tax bill.

Don't bet your business

It's perfectly all right — and even smart — for you to use independent contractors on your jobs. But to avoid significant tax liabilities down the road, you must ensure that these workers are, indeed, independent contractors. If you use large numbers of independent contractors, getting it wrong could cost you dearly. **T**

When disaster strikes, a quick response is critical

Nobody expects to become the victim of a disaster, but, unfortunately, earthquakes, hurricanes, tornadoes, fires and other potentially catastrophic events can happen at any time. The difference between survival and devastation depends on how well you respond.

Spending some time now to identify and prepare for potential disasters can help ensure you respond effectively.

Look for weaknesses

You can't prepare responses for every possible disaster, but you can identify where you're most vulnerable. To do that, make a list of the disasters most likely to occur in your community or on remote job sites. Include natural disasters, of course, but don't overlook organizational crises, such as the death of a project manager or a chemical spill on a job site. Try to determine how each scenario would affect your business — from minimal damage to complete devastation.

You then can begin to address the potential crises in a formal disaster recovery plan. Some, such as a trench cave-in, are predictable enough that you can list actions to take now to prevent or mitigate potential damages. Others, such as natural disasters, are more unknown, and you'll need to determine if there's anything you can do now — such as preparing ways to communicate with employees, vendors and customers when normal communication methods are wiped out — and put it in writing.

Next, select a crisis management team and assign responsibilities for immediate actions such as notifying appropriate emergency response organizations. Develop a checklist for the team to use in assessing the extent of the problem (Has anyone been injured or killed? Is there ongoing danger?) and handling it (notifying emergency departments and appropriate corporate personnel).

Separately address questions of how to deal with media inquiries, help employees and their families cope with the disaster, and begin restoring the business to normal operations. Don't make those considerations part of the immediate-action checklist. When seconds count and emotions are high, too many details can be counterproductive.

Trust, but test

Last, test your disaster response plan. Run through it with the team and look for potential problems. You can't assume you're ready for a disaster — you have to know it.



Contractor's toolbox

It pays to build a relationship with your banker

Just as good marriages are built on trust and communication, so are good relationships between contractors and bankers. They must be built and nurtured over time to outlast the ups and downs that can make — or break — their bonds.

Contractors who take the time to foster good relationships with their bankers are better able to obtain credit, save money in fees and, perhaps most important, enhance business opportunities by tapping into their bankers' extensive network of contacts.

Share the good and the bad

The best way to establish a good working relationship is to communicate with your banker frequently. Banks generally seek quarterly financial reports, but contractors who check in more often will usually come out in better standing than those who don't take the extra initiative. That's because the more your banker knows about you, the more likely he or she will understand and accommodate your business needs.

But what type of information should you share? Bankers appreciate hearing about contractors' achievements; even small successes can make a positive impression. So, if you have just landed a major construction contract, expanded your work force or entered an untapped market, pick up the phone and let your banker know about it.

And don't shut down the lines of communication with your banker when the news is bad. Not talking about major upsets can backfire on you because banks don't like surprises, especially when they reflect poorly on your company.

If something bad happens — you are being sued or you take on an unprofitable job — develop an aggressive plan to turn things around. Let your

banker know what happened and what you're doing to improve the situation. Banks don't typically jump ship when they hear trouble's brewing.

Put your best foot forward

Along with keeping close touch with your banker throughout the year, you'll need to put your best foot forward when securing loans. The worst thing you can do is approach the loan process haphazardly; the best thing you can do is to put together a written plan showing how much you need to borrow and for what purpose.

When evaluating loan requests, banks generally look for contractors who know how to retrench in down markets. They also prefer companies that have good reputations, strong and capable managers, positive cash flow, collateral and solid business plans. Red flags that could result in a loan being refused include abnormal amounts of change orders, problems meeting payroll and questionable business endeavors.

So make sure your plan includes information about your company's history, organizational structure, goals, management operations, internal controls, business activities, future outlook and competitive position. Also be prepared to supply recent tax returns, detailed financial statements, operating cash budgets and bank statements.

Create goodwill you can capitalize on

When you establish and nurture a good working relationship with a banker, you will come out ahead and so will your business. The payoff is that the bank will be better able to assist you in achieving your financial goals and will be more willing to extend a line of credit in tough times. **T**